RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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Oct. 28, 1992 **LETTER 1107**

Oct. 16 DJIA 3174.41; PTI 3558; A-D Ratio -10.51
Oct. 23 DJIA 3207.64; PTI 3570; A-D Ratio -10.34
Dow Yield: 3.24%; Dow Price/Earnings: 51.0
Dow 200-day MA: 3290; Dow 30-day MA: 3244
Dow Times Book Value: 2.30; PTI 89-day MA: 3540
Percentage of Undervalued Blue-chips: 10%

THE PICTURE: The stock and bond markets have to have discounted a Clinton victory. Late polls show Clinton leading in states with a total of 356 electoral votes. Bush trails with states having a total of only 34 electoral votes. Perot will not win any electoral votes at all. As the *Christian Science Monitor* (Oct 15) headlined it, "Pollsters See Clinton Landslide." And as my old friend, Eliot Janeway put it, "Bush's future in Washington is likely to be as a witness in Congressional hearings."

What else can we look forward to? Well, "change," according to future President Clinton. One change that our "new President" wants is a big boost at the high end of the federal income tax -- from 31% to 36%. Then as bitter frosting on the financial cake, Clinton also wants a 10% surtax on "millionaires." Future President Clinton reminds us that "the rich" must pay their "fair share." I call his whole program, "Fun in the '90s," or "The new higher-tax road to prosperity." Are you ready?

In the meantime, if this nation doesn't re-flate, don't blame it on the Fed. According to the St. Louis Fed, the Adjusted Monetary Base since August 5 has risen at an annualized rate of 18.2%. The M-1 Money Stock since July 27 has risen at an 18.4% rate. And Adjusted Reserves since August 5 have risen at a 22.5% compounded annual rate. Despite the Fed's frantic efforts, it looks like Bush will fail to be "floated in" on an ocean of money.

But back to the stock market. You know, I've adhered to this way of thinking ever since I first learned about the Dow Theory (and that was back in the early '50s). The thinking goes as follows: "Russell, why fuss and figure over every rally and decline in the market? We received a bear market signal -- it's a primary bear market. In a bear market, time erodes values, and that means that one way or another stocks are going to go down.

"In a primary bear market you can count on it --whatever is needed to put stocks down will take place. I don't know whether it will be a currency crisis, a recession turning into depression, our new President Clinton doing untold damage, chaos in Europe or in the Soviets, a run on the dollar, you name it (I can't). But the operative thesis is that one way or another, this bear market is fated to send stocks lower."

That's the way I've learned to think -- both in bull and bear markets. And believe me, it saves a lot of hand-wringing, puzzling, and searching the pages of ten different newspaper for critical news (well, to be honest I do that anyway).

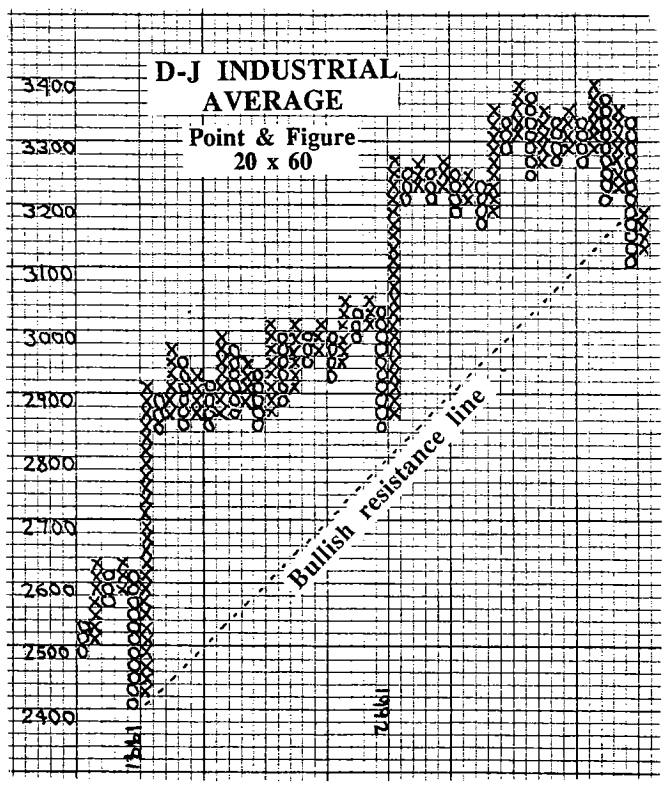
This concept of inevitability is one that most investors cannot comprehend or accept. The usual reaction is, "What do you mean, it's a bear market? Let's get constructive, Russell. Let's figure out what it will take to turn this situation bullish again." Or "Well, if Clinton has the brains to push the right buttons or listen to the right advisors, the market will head up again, maybe even to new highs." Or, "Nothing is preordained. Hey, we've been in recession for three years, and time's running out on bad times. Next year's bound to be a lot better."

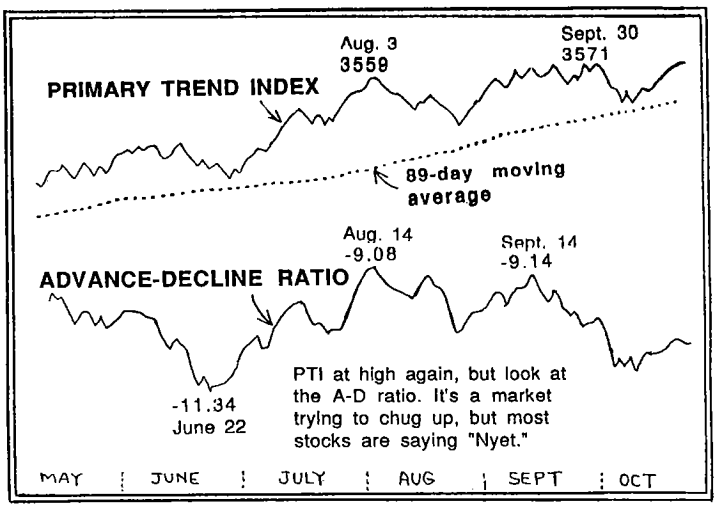
For some reason, people can't seem to accept the idea that once a bull market has ended, a bear market begins. And just as a bull market continues until the very best that can be seen ahead is fully discounted in the price structure, a bear market will continue until the worst that can be seen ahead is fully discounted in the price structure. This is the way it's happened for the last hundred and fifty years. It's the way markets work -- but as I say, people can't seem to accept it.

We've seen some spots of terrific damage over the last few weeks (which is typical of the early stages of a bear market). IBM breaking below 70 was a shocker. Westinghouse at 10 1/2 was rather scary. Philip Morris at 76 probably shook up some bulls. Merck at a bit over 41 had to generate some white knuckles. GM at under 30 wasn't exactly heartening. But my advice is to expect more of the same.

Just to be difficult (and confusing) the Transportation Average has been rallying, and I've received a bevy of calls asking whether that changes the picture. I said, "No, the Dow confirmed the Transports by dropping below the April 8 lows, and that was all that was needed. Belated Transport strength doesn't change the picture."

The Dow first broke below 3181.35, thereby rendering a bear signal. The Dow then rallied above 3181.35 for two days, broke below it again, and on October 20 the Dow rallied above 3200. The bear market, now in its early stages, is going to keep people guessing.





It's also worth noting that neither the S&P 500 nor the NYSE Composite have fallen below their April 8 lows. People ask me what it means, and I respond, "What can I say? It simply means that they're lagging on the downside. But they will confirm. Give 'em time." So brace yourself -- this bear market is going to be difficult, confusing, and prolonged. And time after time it's going to give investors renewed hope that the worst is over. But in the end, the bear will have his way.

As for my **PTI,** it got within 8 points of its moving average (see page 2 chart), then rallied. We've been seeing this exact kind of action ever since the original PTI bull signal back in January 1991. The PTI is doing its job, and doing it well. When it finally turns down and stays down, that's when we'll know that the bear is in full command. As to the present, this is the area where the bear is still playing "hide-and-seek" with investors.

So the Dow Theory is a little lonely here, and there are a lot of doubts about the validity of the October 5 bear signal. Final question: "Russell, do you think the bear signal was valid?" Answer, "Yes, I do."

Point & Figure Dow: One of the advantages of point & figure charting is that it **concentrates** the action. The P&F method includes price movement, but it does not consider time. For example, on the page 1 chart, if the Dow moves up and down within a 15 point range for six months, it will not show on the chart. Only moves outside the 20 point range or major reversals will show.

Because of the concentration, patterns will often appear by the P&F method that will not show by ordinary charting methods (usually because the patterns become too spread out and are therefore lost).

This is a point & figure chart of the Dow, and it's worth studying. What we see here is a concentrated picture of Dow action since mid-1991. This is a 20 x 60 P&F chart, which means that each box represents 20 Dow points, and only Dow movements (rallies or declines) of 60 points or more are shown. The rallies of 60 points or more are depicted with Xs, and the declines of 60 points or more are depicted with Os.

It looks as though the Dow is in the process of forming a huge "head-and-shoulders" top. In September the Dow broke below its rising bullish trendline (dotted line), and this was a bearish act. From there the Dow declined to the 3120 box, then rallied.

What I think we're seeing now is the formation of the right shoulder of a topping pattern. It is clear that "more work" is needed on the right shoulder, and that is probably what the Dow is doing now. A new decline down to 3100 would complete the head-and-shoulder top.

If 3100 is hit, that would constitute a sell signal. Such a breakdown would render a downside "vertical count" of 540 points from the high. A 540 point downside count would give us a downside target of 2840 for the Dow.

I might add that (1) the "count" is one of the fascinating nuances of the point & figure method. Of course, there's nothing guaranteed about the count, but it is interesting to compute. (2) The count-targets are much more apt to work when they are in the direction of the main trend of the market. (3) Since I consider the main trend of the market to be down, I also feel that any downside count would be valid.

Moving Averages: The 200 day moving average of the Dow is currently 3290. The Dow is now roughly 80 points below its MA. The longer the Dow holds below its MA, the more bearish the situation. In a primary bear market, the Dow will tend to hold below its 200-day MA for months on end. Up to now the 200-day MA has been rising (even though the Dow has sunk below it). But the MA is on the verge of turning down, and this will add another bearish layer to the picture.

Bonds: It is generally conceded that bond buyers are more knowledgeable and sophisticated than stock buyers. No, I'm not talking about all those buyers of bond mutual funds (c'mon, that's the public), I'm talking about serious buyers of bonds.

As far as I know, I'm the only one who runs the McClellan Oscillator for bonds. My McClellan bond Oscillator (based strictly on advances and declines on the NY Bond Exchange) is now strongly bearish. The Summation Index, which is a running A-D line of the daily McClellan figures, is now at its lowest point since late-1990 (at which time bonds were hitting the skids).

The bearish McClellan Oscillator tells us that declines have outnumbered advances (corporate bonds only) on a trend basis ever since mid-August. Treasury bonds are now joining the downside parade.

What's the rationale for this poor bond action? Russell opinion: the bond market has seen the future, and it's not happy with it. I call it, "The money market getting out of the way of the new Clinton presidency."

Note at the long end of the Treasury bond list (the list appears in your daily newspaper or in the *WSJ*), over a dozen individual issues have now climbed up to the 7.60% level. They're pushing towards 8%.

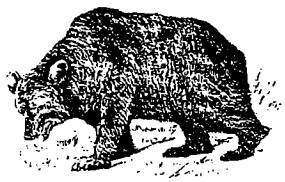
Some observers say that when Clinton takes over, bonds will go down (because of higher spending) but stocks will go up. Sad to report, it just doesn't work that way. The stock market will seldom buck a persistent trend in bonds. And with stock yields currently dangerously low, a trend to lower bonds (higher bond yields) would be a major negative for stocks.

Many years ago I presented a study showing that when bonds and the utility average move together -- either up or down -- the stock market is almost guaranteed to follow. Well, we're currently in one of those periods, bonds and the utility average are now moving down together.

The T-bonds have formed a large head-and-shoulders top, and support (at 103 on the Dec. contract) was cracked on Oct. 20. With the pattern breaking down, I get a target "count" of at least 97 for the bonds. At 97, the long bond would yield 8.27% (and that would be a bit of a shocker).

Bob Farrell of Merrill Lynch is one of the only senior guys in any brokerage firm who has the nerve to talk bearishly. Farrell notes that the average return on stocks over the past 65 years was roughly 10. In the last 14 years, however, the return has been around 15%, while for the last ten years it's been 18%. In 1991 it was 30%. Since events tend to adjust to the averages, it would seem that we're heading for a number of years when stock returns are below 10% or negative. It's a thought.

INVESTMENT POSITION: The bear's in the box now, but those expecting or hoping for a straightaway collapse will be disappointed. Remember the old adage, "The market always does what it's supposed to -- but NEVER WHEN."



Well, those Hong Kong stocks we bought many months ago are all near or at new highs (i.e., China Lt. & Power, Hang Seng Bank, Hong Kong Electric, Hong Kong Telecommunications, Dairy Farm, Winsor Indust). The Hong Kong market is currently the hottest market in the world. In the last two weeks the HK market has risen a huge 13% to a new record high. Hong Kong's big worry was China, and China is evidently going to become the world's first "capitalist dictatorship." The old hard-line guard is dying out or being replaced. And China economy is growing at the torrid rate of 6-8% a year.

German bonds are at their highs -- the problem is the dollar/mark relationship. With US interest rates heading higher and German rates heading lower, the currencies are converging, meaning the dollar has been getting stronger against the mark and against currencies in general. The German bonds continue to represent good diversification, but their yields are well down from when I first recommended them, so at this point they are less attractive.

I have an article in the Oct. 19 issue of *Barron's*. In it I said that in this world of bubble economies, mountainous debts and fiat paper money, diversification may not be the perfect answer, but it's the only answer. Believe it. If I was certain of any one investment area, I'd buy that area and I'd forget about diversification. Unfortunately, I'm not that sure of any one area.

The operative word now is liquidity, By my definition, a person who's liquid has a lot of cash and darn little debt. When things head down in a bear market, debt kills.

PICKING THE GREAT BUY SPOTS: Of late I've been writing a lot about selling -- getting out of the market when the primary trend is bearish (which it is).

Of course, there's another side of investing. It's the critical question of when to buy and more specifically -- when to buy most advantageously. There is no money-maker comparable to buying stocks when they are undervalued and just before the market is about to embark on one of its great "upward momentum moves." Sounds great, right? But how do you do it?

I'm now going to describe one of the best ways of buying correctly that I've ever seen or dealt with. The system is based on an involved and complicated mathematical formula. It's a formula that was developed by a brilliant market practitioner, the late E.C "Sedge" Coppock. Coppock headed the *Trendex Research Corporation* out of San Antonio, Texas.

Coppock didn't have a computer when he developed his technique. Happily (for me), I have one. I set the Coppock formula to a computer "spread sheet," a process which avoids what would otherwise involve many hours of arduous computations.

It's fascinating to note that the Coppock Index has never failed to identify great, low-risk buying areas. The buying areas that are identified by the Index almost always come after the absolute bottom of a market decline. But listen to Sedge Coppock's own words, *"This technique is of no value whatsoever to an in-and-out trader. It is a special-purpose technique for long-term investors. It is their low-risk buying guide. This technique does not give a so-called buy signal at the moment of trend reversal -- instead, it gives such a signal when the risk factor is low, just prior to the inception of an important sustained advance."*

To illustrate the way this Index works, I have included charts of the Dow (end of the month closing figures) plus the Coppock "low risk" Index (the Index figures are also based on end of the month Dow closings). I show the Index and the Dow going back to the mid-1940s. To my knowledge, this is the first time that this whole series has been published (charts on page 4).

Now this is important. The Index cannot be used for calling tops or for identifying selling areas. The Index only comes into play when it falls below the zero line. A low-risk buying area is identified when the Index FIRST TURNS UP from a point BELOW the zero line.

Note on the charts that at times the Index drops slightly below zero, then turns up, while at other times the Index drops substantially below zero prior to an upturn. Both upturns identify low-risk buy areas, and there is no guarantee that one signal is superior to the other (although personally, I prefer the signals that come from a deeper level below zero).

Including the 1949 signal, there have been 13 low-risk buy signals over the last 43 years. Of the 13, there was only one false signal. It occurred in July 1957. The 1957 false signal, however, was different from all the others in that the Index had dropped below zero for only a single month prior to turning up. For this reason, I am including a rule to the buying technique. It is this:

The Index must hold below the zero line for at least three months before turning up in order to give a valid buy signal.

Scanning the 12 profitable buy signals, all came after the Index had held below zero for three months or longer. In fact, in one case the Index held below zero for 8 months before signaling a buy spot. Another signal came after nine months below zero, one came after 10 months below zero. The longest span occurred when the Index held below zero for 17 consecutive months before turning up -- that buy signal came in January 1975.

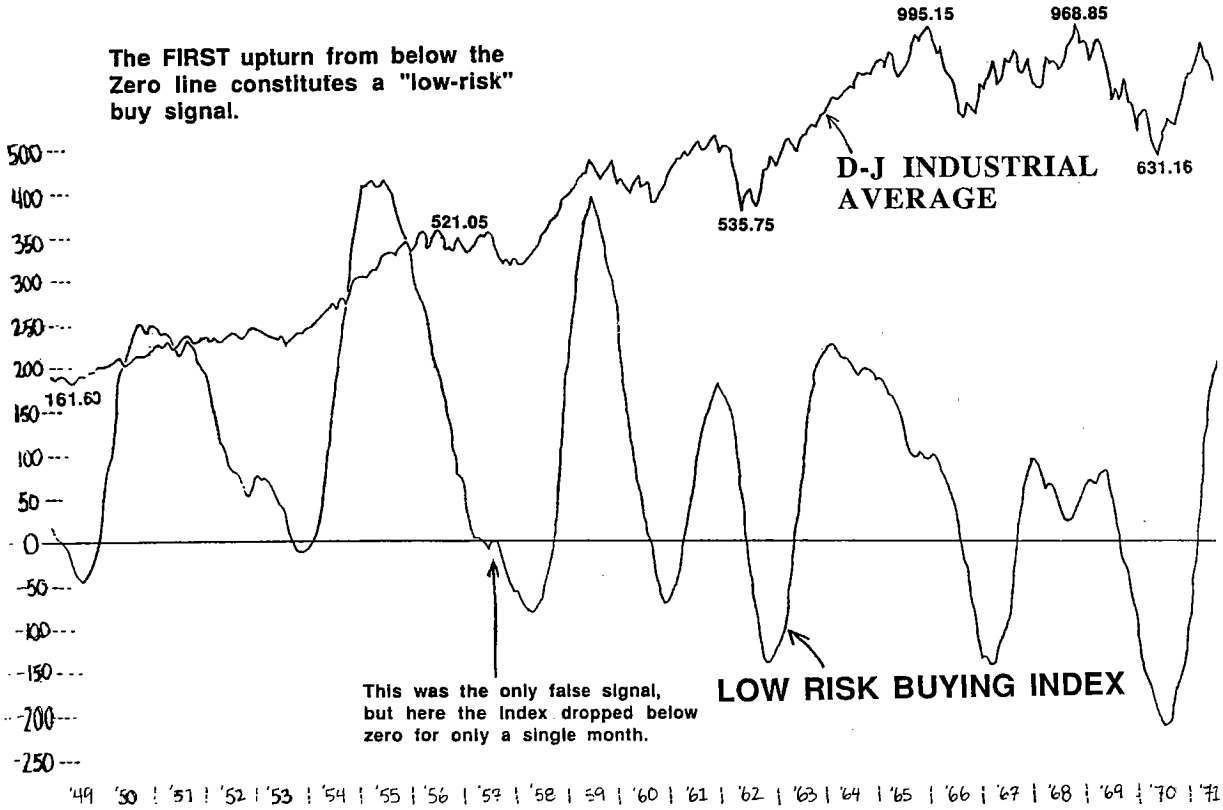
Of the 12 valid signals that have occurred since 1949, the average length of time between signals was 40 months. The longest time span between signals occurred between August 1970 and January 1975. There was a 52 month time span between those two buy signals.

What about the present? Here's what's important to note. (1) Currently, the Index is many months away from signaling a low-risk buy area. In fact the Index is still well above the zero line, and the odds are that it will take quite a few months before the Index can drop under the zero level. (2) It's been 48 months since the last low-risk buy signal (in 1990 the Index got very close to zero but did not break below it). The last authentic signal came in September 1988. (3) The next buy signal will almost surely arrive in 1993. (4) The next buy signal may not mark the end of the bear market, but it should be a profitable buy area (probably signaling a mini-bull market within a much larger ongoing bear market). (5) By inference, since the Index is dropping but still well above the zero line, the market can hardly be considered "a buy" here.

Conclusions: (1) According to Dow Theory, we are in a primary bear market, (2) the bear market has a good deal of time ahead of it before it produces a good low-risk buying area. (3) Patience is needed here. When an excellent, low-risk buying area arrives, we should be able to identify it. (4) The lower this market goes, the better the buying area, since lower prices generate increasingly better values, particularly in dividend-paying blue chip stocks.

I will keep subscribers abreast of the low-risk buy Index, noting when it drops below zero and when it finally turns up from below the zero line. Remember, this Index is not designed to identify the absolute bottom of a reaction or the bottom of a bear market. It is designed to identify the very low-risk buying area just prior to a major advance.

Final Note: Stock market rallies in this area are just "time wasters," just technical bounces. Based on the chart history accompanying this piece, the next important market move will be the move that drives the Index below zero. Following that, the next important


The FIRST upturn from below the Zero line constitutes a "low-risk" buy signal.
995.15
968.85
631.16
D-J INDUSTRIAL AVERAGE
521.05
535.75
161.60
This was the only false signal, but here the Index dropped below zero for only a single month.
LOW RISK BUYING INDEX
500
400
350
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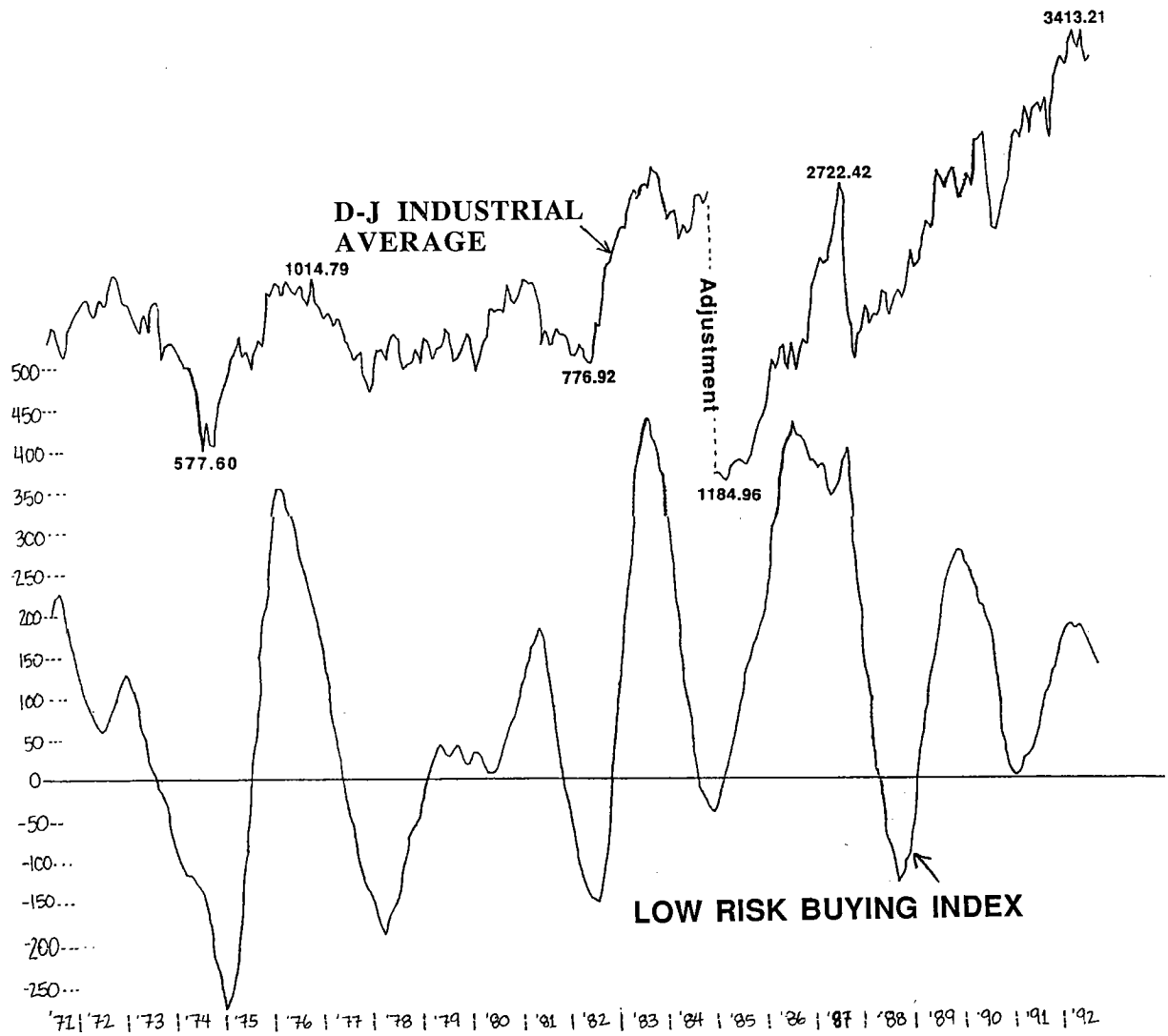
3413.21
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LOW RISK BUYING INDEX
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'71 '72 '73 '74 '75 '76 '77 '78 '79 '80 '81 '82 '83 '84 '85 '86 '87 '88 '89 '90 '91 '92

move will be the buy signal that is generated as the low-risk buy Index turns up from its position below the zero line.

NOTES & QUOTES: All Mideast oil sales have been in dollars. But the Saudis are now experimenting with selling oil in currencies other than the dollar. If this becomes standard practice, it would remove the single greatest demand area for dollars. And if that happens, one of the major props under the dollar would weaken.

* *

Russell's observations on the Big Show: OK, I agree that Clinton is the winner. But I'm tired of him already. He talks and talks and talks. Even in my dreams I hear Clinton talking. Somebody asked him what time it was, and he gave them a twenty minute lecture on why trickle-down doesn't work.

* *

Will we ever get rid of the current idiotic tax system and move to the flat tax? GOP senate candidate Bruce Herschensohn is featuring the flat tax in his race for the Senate. His flat tax would be 19% with the first $16,000 of income for a family of four exempt from any tax. There would be no tax on capital gains, dividends or interest. You'd be able to make out your tax return in 10 minutes. I urge all my California subscribers to vote for Herschensohn. The current tax system is a total abomination; it's a political boondogle and should be junked.

* *

Britain is deep in recession/depression. For the first nine months of 1992, bankruptcies in Britain jumped 40% to 46,000, almost as much as the whole of 1991. Unemployment in Britain is now over 10%. Jobs are being lost in Britain at the rate of 8,000 a week. When Faye and I were in London a few years ago I was actually angry about the prices. I said the pound on a purchasing power basis was worth about a buck and a quarter. I still think it is. Last week the pound dropped to $1.65. I think it's going lower.

How wild has it been in the currency markets? Get this -- on Oct. 7 we sold four calls on the D-mark for $3,400 after commisions. We bought them back the next day for $430 after commissions for a $2,970 net profit. But believe me, this kind of extreme volatility doesn't occur very often.

* *

Madonna's "Sex" book is out. Wife Faye thinks it will be a big seller. I bet her $100 it will be a dog. I don't think it's my age, but I'm getting very tired of Madonna.

* *

The October 13 *WSJ* published a front-page piece on the deflation in S. California housing prices. I've been talking about this for months. What's really happening is that home prices are melting away, but nobody's sure what their house is worth because it is very hard to get bids. I know half a dozen people who are trying to sell their homes, but they are not getting any serious bids. Home prices will crumble when sellers must sell at any price, and the transactions actually take place. I distrust today's prices, which, I think, are still ridiculously high in the Golden State.

You want actual figures? Here they are, courtesy of *"The Real Estate Observer,"* PO Box 3040, Running Springs, CA 92382. For Southern California, 17.5% of ALL home sellers are currently selling their homes for less than they paid for them. A year ago it was 9.4%, and two years ago it was 3.2%. In Orange Country the current figure is 26%. Says the Observer, "When I pass these numbers around, there is an initial gasp of horror. Selling at a loss in Southern California is ungodly!"

Russell comment: A house is good value when you can buy it, rent it out and show a profit. Try that at today's home prices in California. We're nowhere near this criterion. To demonstrate what GREAT values are -- in NYC during the Depression you could buy a brownstone, half which was 50% rented, and make 25% on your money. And I'm not talking about a solitary case, they were there by the hundreds.

* *

Clinton promises to raise taxes for successful citizens (let the rich pay their "fair share"). And prop. 167 in California, if it passes, will raise taxes on corporations and "the rich." If this keeps up, there won't be any businesses or any rich in California, they'll all be moving to Texas, Washington or Florida. A fellow newsletter writer moved from California to S. Dakota -- he told me that he can buy a new house every year with what he now saves in taxes.

The *WSJ* piece stated that the picture in S. California is much more serious than it was in the real estate slump in Texas, basically because the situation is so much bigger in California and because home prices were so much more inflated here. Note: keep your eye on the California banks. They are loaded with real estate debt, most of it on homes and commercial properties that are now below their values of a few years ago.

* *

This may be one of the strangest and most ironic partnerships in business. Three tobacco companies actually own life insurance companies. CNA is owned by Lorrilard's parent, Loew's. Franklin Life and American Tobacco are owned by American Brands. Farmers Group and British-American Tobacco are owned by B.A.T. All three insurance companies charge smokers nearly double for term life. Why? Statistics show that at ANY AGE a smoker is twice as likely to die as a non-smoker. Statistics: more than 20% of Americans smoke. In Japan 60% of all adults smoke, and 80% of all cigarettes in Japan are sold by the Japan Tobacco Company. The Japanese government does not discourage smoking and collects huge taxes from the sale of cigarettes (as does the US government). Another irony -- while Washington discourages smoking, it gives millions of dollars in subsidies to the tobacco farmers.

* *

Germany wants a world-class financial market. Over the next three years seven smaller German stock exchanges will be merging into one. The name of the new exchange will be Deutsche Borse, and it will be lodged in Frankfurt. The idea is to compete with London, New York and Tokyo to make Deutsche Borse one of the world's four international financial centers.

* *

The Japanese yen may be the hot currency during the months ahead. The Japanese government has promised a giant $86 billion infusion to the Japanese economy, although this has not yet gone into effect. Japan still has a massive positive current account. And Japanese money (after taking a beating on many foreign investments) is coming home again --in huge quantities.

* *

Speaking of money coming home, this is what's happening in Japan and Germany. Both nations must finance huge deficits, and whereas the two countries were a source of massive currency supply during the '80s, they now need all the money they can attract. With the US also needing vast quantities of money to service its chronic deficits, somewhere ahead you know that interest rates (globally) must rise. An early hint is the decline in Eurodollars (these are dollar overseas bank deposits, and they are extremely sensitive to any kind of trouble or to any forthcoming rise in rates).

* *

The Russian situation is chaotic, and the collapse of the ruble is the last thing they needed. The creation of the fiat ruble, I felt, was an unbelievable act of stupidity. Did the Russians, with their "nothing economy," think they could create a viable fiat currency? Idiocy! I said at the time that they should have backed the ruble with gold, but that would have angered the other nations. ("What, a gold-backed ruble when the world's reserve currency, the dollar, is nothing but a government edict.")

Frankly, I'm getting worried about the Soviet situation. Peter Lynch's (of Magellan Fund fame) doomsday scenario runs like this: "What if the Soviet Union becomes another Yugoslavia? The Soviet Union is a country loaded with nuclear weapons and is the third largest oil producer in the world. It's pretty scary. The price of oil would take off. We used to pray for the conversion of Russia. Now we pray they will stay in business. There's a country that's had years of repression, and their first experience with capitalism is a depression."

*

None of the presidential candidates (except Perot) are talking about the coming bank mess. Hundreds of banks could fail within months of the election, and the cost of closing them down will be

huge. The FDIC which guarantees the deposits is now $5.3 billion in the hole. There's more bail-out money needed, and the taxpayers will pay. No wonder nobody's talking about it.

* *

Donald is coming: Donald Trump is coming to speak in San Diego. He's signed with the Washington Speakers Bureau, and his fee for speaking is $60,000. Gad, what can Trump say that's worth sixty grand?

* *

Welfare: 13.7 million people or 5% of the US population is on welfare. The major program, Aid for Dependent Children, costs more than $20 billion a year. According to *USA Today*, 51% of married couples don't have or don't want children. Well, somebody's sure having them. When I was a boy, it was almost unheard of for a teenager to be pregnant. Now 1 million teenagers are mothers.

* *

Now here's something I've noticed. Back in the '60s the girls threw away their bras and wore just T-shirts. Today the girls (ladies) have tossed away their T-shirts and just wear bras -- at least that's what's been happening in Southern California. And no, I didn't complain during the '60s and I'm not complaining now.

* *

What are America's "strongest companies"? According to Moody's, these AAA rate companies are the strongest: Amer. Home Products, Amoco, Bristol-Myers Squibb, Emerson Electric, Exxon, GE, Johnson & Johnson, Kellogg, Eli Lilly, Merck, MMM, Pfizer. You may not make money holding these companies, but with their financial strength they're not going to go broke either.

* *

The world is producing too darn many cars. It just can't use them all. This year Mercedes will cut 10,500 jobs, Jaguar can't sell anywhere near its output nor can Porsche. GM is losing $300,000 a month on its N. American operations. And for the first time in memory the Japanese car manufacturers are having trouble selling their output. Wait till the Chinese come out with their $1,600 sports cars (aw, I was only kidding).

* *

An investment genius once said, "The dumbest single thing you can do with money is spend it." He's right, of course. What he is really saying is that the money you save today, if compounded, will be worth a lot more in five or ten years. The eighth, ninth and tenth wonders of the world -- compounding. Did anyone ever tell our politicians that?

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I never thought I'd say this but, I'm going to -- I don't know if I'll trust anything that's happening in the markets until after election. I just get this feeling of MANIPULATION, manipulation, manipulation. I do know one thing -- Greenspan was appointed by Bush, and the Fed is absolutely flooding the banks with liquidity. That action may have driven interest rates down, it may have killed savers and those living on interest income, it may have knocked the dollar on its fanny -- but it has gone a long way towards reliquefying the banks.

And again, of course, the Fed and the various government agencies have rushed into place "catch-all nets" under the S&Ls, under sagging commercial properties and under insolvent banks. What this amounts to is shifting private debt onto the backs of the public -- the public meaning you and I. We're the ones (or at least our kids are) who will be paying for the "safety-net" society of the '90s.

At any rate, the public now senses the great deceptions and lies that have been built into the America of the 1980s and '90s. The public doesn't know exactly what's been done to them, but they do sense it. They see the lay-offs, they see their purchasing power sliding, they see the stores packed with foreign goods, they see the low quality of the men who are now running for office.

And even the "fed-up" man's hope, Ross Perot, turns out to be an egotistical manipulator, a prickly little fellow who screams at the press, who quits when the going got rough -- and then comes back in the hopes of salvaging his reputation (yeah, I'm voting for him anyway, what other choice do I have unless I vote for the Liberterian Party, and I probably should do that).

All of which brings me back to the markets. I started this section by complaining that maybe the markets are being manipulated by a Fed that is pumping up the reserves to the point where M-1 is going off the top of the charts. Furthermore, the Fed's holdings of securities is rising at an adjusted rate of 14% (that's called monetization of the debt, and it ends up with inflation).

But the markets are still the most HONEST indicators that we have. You can manipulate the markets for a few days or a few weeks (maybe even for a few months), but ultimately the markets speak the truth. And one thing is for certain -- the Fed, the Treasury and and President taken together don't have the power to manipulate the primary trend.

In closing this section I want to remind readers that the markets these days are HUGE. The world currency markets, for instance, trade at the rate of up to a trillion dollars a day (compared with maybe $150 billion daily in the US stock markets). The markets today are the policemen to the world. They are the clubs that hang over the heads of the politicians.

If President Clinton starts doing damn-fool things, the bond market, the dollar and the stock market will come down on his head like a ton of bricks. If he even starts to talk like an idiot or if he moves in a direction that is dangerous, the markets will erupt. And he'll be stopped dead in his tracks. Let me put it another way -- when a nation has a federal debt of $4 trillion, when a nation has total debts (corporate, federal, individual) of $15 trillion, then its ability to do "hanky-panky" becomes very limited. The markets just won't take it. And when $15 trillion of assorted debt says "No," well, it concentrates any politician's thoughts -- and limits his actions.

GOLD: The broad M-3 money supply surged by $33 billion last week, so it's possible that the Fed's hyper-pumping is finally beginning to sift through into the economy. This may be too late to help Mr. Bush, but if M-3 is finally fated to expand, it should (in due time) show up in the inflation figures.

If inflation is to make its appearance, we will see it in (1) higher gold prices, (2) higher interest rates -- this is happening now, and (3) lower bond prices -- this too is occurring. This missing link, so far, is in the action of gold.

The last thing the Fed wants to see (despite the fact that the Fed has sent bank reserves through the roof) is a rising price for gold. Rising gold is one inflation signal that the public understands, but what the Fed and the government want is "silent inflation" or "inflation without the warning flags."

In the meantime, gold seems to be marking time in the 342-350 range. Every time gold starts to push above 350 "something" or "somebody" hits it and knocks it down five bucks. I'm suspicious, but maybe that's just my nature.

LATE NOTES: I used to laugh at those "Perot is paranoid" jokes. I don't laugh any longer -- I think the guy is paranoid, but what the heck, nobody's perfect, right?

Bonds have topped out, long rates are climbing. Everybody's a bull on the dollar now, but the bull side is getting crowded. The pound sterling finally broke under 1.60. It's still overpriced; I think it's worth a buck and a quarter . . . The A-D and the PTI have parted company again. PTI is saying, "Pressure is to the upside." A-D is saying, "Pressure may be up, but the action is poor, majority of stocks going nowhere." Example: Week ending Oct. 23 there were 197 new NYSE highs, but 157 new NYSE lows. Far too many lows for a rally. This is topping action, many stocks breaking down while the Averages push higher .

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